

State of Michigan
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Department of Environmental Quality



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INTERNET: <http://www.michigan.gov/deq>

**State Revolving Fund (SRF)
Final Intended Use Plan - Fiscal Year 2003**

**Prepared by:
Municipal Facilities Section, Environmental Science & Services Division
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Fiscal Year 2003 Project Priority List

I. INTRODUCTION

The State of Michigan provides a low-interest loan financing program to assist qualified local municipalities with the construction of needed water pollution control facilities. Michigan's fund is officially known as the Water Pollution Control Revolving Fund. Since its inception in 1989, however, the fund has more commonly been referred to as the **State Revolving Fund, or SRF**. This is an important distinction to be made because Michigan also offers a similar financing program for drinking water projects. The **Drinking Water Revolving Fund** is known as the **DWRF**.

While these two programs run on parallel tracks, there are some differences in their requirements. It is important that interested parties work with Department of Environmental Quality (DEQ) staff to increase their knowledge of these differences. This Intended Use Plan (IUP) will focus on the SRF.

Michigan's SRF program is used by local municipalities to finance construction of their water pollution control projects. These projects may include wastewater treatment plant upgrades or expansions, combined sewer overflow abatement, new sewers designed to reduce existing sources of pollution, non point source pollution management measures, and other related wastewater treatment efforts. Qualified municipalities must meet federal and state program requirements, as well as demonstrate their ability to publicly finance their project.

The SRF is a state-managed program. This Fiscal Year (FY) 2003 IUP describes how the DEQ and the Michigan Municipal Bond Authority (Authority) will jointly administer the SRF during the upcoming fiscal year. The Municipal Facilities Section (MFS) of the Environmental Science and Services Division (ESSD) is charged with carrying out the program administration responsibilities. Financial administration of the program continues to be handled by the staff of the Authority. The administrative contacts for the SRF are as follows:

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The Environmental Protection Agency (EPA) continues to offer guidance and annual program oversight reviews, which strengthens the management of the SRF and helps to ensure consistent application of federal requirements.

II. STRUCTURE OF THE SRF

From 1989 through 1992, Michigan's SRF operated as a direct loan program. Municipalities requested reimbursement for project costs and draws were processed directly upon federal and state funds as they were requested. Since 1992, however, the state has sold State Revolving Fund Revenue Bonds that are covered with a reserve drawn directly from federal and state funds. Bond issuance costs are covered by the

bonds sold and, thus, are not identified as direct administrative expenses of the SRF. These bond issuance costs have historically approximated 1 percent of the total bond issue.

It is from these bond issues that reimbursements are drawn for the local units of government. Concurrently, the EPA and state funds are deposited into the debt service reserve accounts that provide coverage for the revenue bonds.

Michigan has requested and received federal capitalization grants from the EPA since FY1989. This federal contribution has been significant, amounting to over \$860 million to date. These funds, matched by a 20 percent contribution from state sources, have created the capital pool from which the low-interest loans can be made.

The following summarizes the yearly capital contributions of both the federal and state governments:

FY	Federal Cap Grant	State Match	Total Amount Available
1989-2002	\$865,271,297	\$173,054,259	\$1,038,325,556
2003	\$57,322,782*	\$11,464,556*	\$68,787,338*

***denotes estimates using \$1.350 billion national appropriation and current continuing resolution for FY 2003**

III. ADVANTAGES OF THE SRF

The primary advantage of the SRF to Michigan municipalities is the ability to borrow funds below the market rate. When the program began, loans were offered with a 2 percent rate of interest. At the start of FY1995, the interest rate was raised to 2.25 percent. Since FY1999, the interest rate has been set at 2.5 percent. Since the fund's inception, open market interest rates have ranged from 2.5 to 8 percent. The relative stability of the SRF has allowed communities to more adequately plan without factoring in major market rate adjustments.

Prior to each new fiscal year, the DEQ Director establishes the SRF interest rate. The interest rate will be 2.5 percent for FY 2003. The decision is based on demand, market conditions, program costs, and future structuring needs.

Apart from the low interest, municipalities also benefit from the SRF in that they can finance all eligible water pollution control costs. They often do not have to seek other sources or enter the market to obtain local share financing. Everything is handled by this "one-stop shopping" concept. The amount of time it takes to commence construction is greatly reduced. This streamlined approach has resulted in lower bid costs because of the tighter timeframe. A streamlined approach has removed the unexpected elements that occurred when communities would obtain a grant and then have to secure financing for the local share.

The SRF can also be used to fund qualified projects to abate non point sources (NPS) of pollution. The DEQ Director may allocate funds between traditional point source projects and the NPS projects such as urban and agricultural runoff. There continues to be little

interest from local units of government to finance projects for NPS pollution control through the SRF. The impediment likely results from the difficulty of generating a viable source of repayments for NPS projects.

The DEQ will continue to make loans available to any Section 319 NPS project within the fundable range that can meet program requirements. *However, no project plans were submitted for FY 2003 NPS projects before the July 1 submittal deadline.*

IV. HARDSHIP ASSISTANCE GRANT

The DEQ executed a Partnership Agreement with the United States Department of Agriculture, Office of Rural Development (RD). This agreement addresses the award of hardship assistance grant funds. Appropriated by the federal government in 1996, the approximate \$2.4 million in hardship assistance grant funds were intended to provide an additional source of funds to supplement SRF loan awards to communities who met hardship criteria. The difficulty of having qualifying communities rank high enough on the annual SRF Project Priority List (PPL) to receive a loan has prompted the DEQ to seek another avenue to expend these funds. The agreement permits the award of hardship funds to communities concurrent with the RD award of its grant/loan funds. The hardship assistance will cover the planning and design costs incurred for the project and will take the form of a direct pass-through grant to the recipient of the RD assistance. To date, \$2.05 million of hardship assistance has been awarded. Further information regarding hardship assistance can be obtained from the Municipal Facilities Section.

V. PROJECT PRIORITY

The state Clean Water Assistance Act, now codified in Part 53, Clean Water Assistance, of the Natural Resources and Environmental Protection Act, 1994 PA 451, requires the SRF to offer assistance in priority order from the state's annual PPL. The criteria used to prioritize the projects are contained in the Act, with details set forth in administrative rules (R323.951 to R323.965).

This Final FY 2003 IUP and PPL includes projects seeking Orders of Approval (the state's binding commitment) between October 1, 2002, and September 30, 2003. Upon completion of the federal appropriation process, letters will be sent to those on the PPL to identify the fundable and contingency projects. Communities with projects in the fundable range must negotiate a milestone schedule with the MFS project manager assigned to their project.

Historically, many projects in the contingency range of the PPL have been funded when others in the fundable range fail to satisfactorily meet program requirements in a timely manner. Therefore, it is imperative that municipal officials work closely with the DEQ and the Authority to ensure that no opportunity for funding is lost.

NOTE: There is no actual or implied guarantee that inclusion on the PPL or the IUP will constitute a commitment of financial assistance from the SRF. All program requirements must be satisfied before a binding commitment will be offered and a loan closed.

VI. LONG-TERM GOALS

Michigan's SRF is a primary funding source used to protect and preserve the water resources within the state's boundaries. As more attention is given to water pollution abatement efforts within specific watersheds, the DEQ will continue to work toward establishing tighter integration of the federal/state/local partnership. This includes efforts to satisfy EPA that the pace of Michigan's SRF is satisfactory.

The DEQ has expressed its willingness to work together with various federal and state agencies, such as Rural Development and the Michigan Economic Development Corporation, so that our agencies may collectively fund applicants and maximize use of our capital pool to protect Michigan water resources.

Such protection of the state's waters will ultimately benefit everyone. Industry, tourism, and day-to-day quality of life are strengthened when our most valuable natural resource is preserved for our use and enjoyment. This includes improvement of existing surface waters, which suffer impairment, protection of groundwater resources from improperly treated discharges, reduction of harmful discharges from combined sewer overflows, and the protection of aquatic ecosystems that cannot thrive in conditions of degraded water quality. To this end, long-term goals for Michigan's SRF are:

- A. To achieve and maintain statewide compliance with all applicable state and federal laws, rules, and standards.
- B. To protect the public health and environmental quality of our state.
- C. To further integrate principles of watershed management and water quality restoration within urban, as well as out-state areas.
- D. To secure Michigan's full share of federal funding available under Title VI. To expeditiously obligate the federal funds, along with the state contributions, for the construction of water pollution control projects which meet state and federal requirements.
- E. To maintain strategies within the SRF to assist smaller, hardship communities in meeting water quality standards.

VII. SHORT-TERM GOALS

In order to accomplish the long-term goals, we must also focus on more immediate objectives. Therefore, our short-term goals for FY 2003 are:

- A. To fund those projects identified in the IUP, enabling them to proceed with construction of facilities included in their adopted project plans.
- B. Work with other agencies and offices in developing integrated approaches in watershed management efforts.
- C. Coordinate disbursement practices with the DEQ's Office of Financial Services to ensure accurate reporting of program information for administrative/project expenditures.

- D. Increase awareness about the Small Community Hardship Assistance Program.
- E. Identify and integrate, wherever possible, outreach efforts focused on pollution prevention activities.
- F. To ensure that funded projects have reviewed and considered the security needs of the sewer system.

VIII. ALLOCATION OF FUNDS

With Michigan's decision to utilize a leveraged SRF bond program, the establishment of a fundable range for any given fiscal year entails a series of steps that culminate in a determination of how much leveraged borrowing fund resources can support. Using a series of interest rate assumptions (SRF loan rate, return on investment rates, and revenue bond rate), the process for FY 2003 is outlined below:

1. The DEQ reviewed the total amount of loans committed through September 30, 2002, and other draw amounts that affect the SRF.

Total loan commitments through 9/30/02	\$1,721,565,000
Less reduction in loans for admin. complete projects	(\$ 27,566,427)
Less direct loan draws to date	(\$ 152,455,315)
Less total revenue bonds issued to date	(\$1,530,866,203)
Additional revenue bond amount needed	\$
10,677,055	
to service loans through FY 2002	

2. To establish an estimate of reserve fund capabilities, the DEQ assumed that the capitalization grant and the state match would remain constant for the next five years (for planning purposes only). Using the FY 2002 administration budget recommendation of \$1.350 billion, approximately \$57.32 million in capitalization funds from the EPA would be available in FY 2003. The addition of the required 20 percent state match would provide approximately \$68.79 million for the SRF reserve deposit.
3. As Congress has not appropriated funds to EPA for FY 2003, the DEQ has estimated the fundable range and the amount of loans the SRF can support for FY 2003. The fundable range for FY 2003 is \$332,574,676. Since the total amount of projects ready to receive SRF loans in FY 2003 is estimated at \$271.2 million, the DEQ anticipates the SRF fundable range will extend through the entire PPL in FY 2003.

IX. ASSURANCES

The final guidelines from the EPA set forth provisions that the state must provide certain assurances in order to qualify for capitalization grant funding. Such assurances are incorporated into the Operating Agreement and are included here by reference.

X. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS

The State of Michigan will provide financial assistance from the SRF to municipalities in the relative order that they appear on the PPL developed for the fiscal year covered by this IUP. It is probable, however, that lower-ranked communities will receive money sooner if higher-ranked communities are not ready to proceed.

As a result of the DEQ's review, 24 projects totaling \$271,180,000 have expressed their intent to proceed in FY 2003 and are included on the Final FY 2003 PPL. Staff also identified 12 projects and/or segments equaling \$1,217,180,000 that will be considered for funding in the future. Thus, 36 different projects totaling \$1.5 billion are identified on the PPL, along with a brief description, their total priority points, population to be served, targeted binding commitment date, and targeted binding commitment amount. The attached Key to Project Priority List Headings identifies the project priority categories in which each project received points.

The FY 2003 PPL is included as part of the IUP process, and will be presented as part of the public hearing notification package. A separate copy of the PPL is available from the MFS.

Section 5309 of 1994 PA 451 permits the DEQ to limit funding in certain circumstances to maximize funds and achieve greater environmental gains. It reads:

To ensure that a disproportionate share of available funds for a given fiscal year is not committed to a single sewage treatment work project or storm water project, the department may segment a sewage treatment works project if either of the following criteria is present:

(a) The cost of the proposed project is more than 30 percent of the available funds.

(b) Upon application of a municipality, the department has approved a municipality's application for segmenting a project.

Financial assistance to municipalities during FY 2003 will consist solely of straight loans. There will be no guarantees of indebtedness.

XI. PUBLIC REVIEW AND COMMENT

In order to satisfy public participation requirements, the DEQ held a public hearing on the IUP and PPL on September 24, 2002, at 1:30 p.m. in Lansing, Michigan. This hearing was announced in newspapers throughout the state, published in the DEQ Calendar of Events, individually noticed to each municipality on the proposed FY 2003 PPL along with their consulting engineer, and sent to interested parties.

Items addressed in the public hearing included Michigan's draft PPL, draft IUP, priority point assignment, planned funding schedules, and proposed binding commitment amounts for projects that might be assisted with SRF moneys during FY 2003. This hearing provided an opportunity for municipalities and other interested parties to comment and request changes to their project's ranking criteria, if necessary.

Questions about the public hearing, the draft PPL, or the draft IUP were directed to:

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XII. ORIGINATION OF DOCUMENTS

The Chief of the Municipal Facilities Section of the DEQ is responsible for issuing the Intended Use Plan. It is a collaborative effort of MFS staff that provides data for its development.



MUNICIPAL FACILITIES SECTION, ENVIR. SCIENCE AND SERVICES DIV., MICHIGAN DEPARTMENT OF ENVIRONMENTAL QUALITY

525 W. ALLEGAN, P.O. BOX 30457, LANSING, MI 48909-7957 (PHONE: 517-373-2161)

Michigan Clean Water State Revolving Fund

Loan Assistance Ranking For Wastewater Treatment Works Projects

FINAL Fiscal Year 2003 Project Priority List By Rank

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Rank	Project Number	Project Name And Description			Water Quality Severity Points							Enf Pts	Pop.	Pop. Pts	Exist. Disch	Rec Waters	Dil. Ratio	Rat. Pts	Tot Pts	Bind.Com Date	Bind.Com. Amt.
					DO	NUT	TOX	MICR	GWD	Tot											
PROJECTS WITH PRIOR YEAR SEGMENTS																					
1	5207-99	Dearborn	Wayne Co	CSO: Tunnel - Phases A & B - Future Segments	18	37	0	27	0	82	300	60730	95	6.73	1	>.6000	100	577	Future	\$260,185,000	
2	5192-04	Geo W Kuhn DD	Oakland Co	CSO:12 Towns RTB Imp - Seg 4	12	12	0	1	0	25	300	209000	100	12.16	1.7	>.6000	100	525	9/4/2003	\$5,000,000	
3	5186-05	Intra Co DB for Lk S	Macomb Co	RTB/Misc Imps-Seg 4	0	13	0	27	0	40	300	154802	100	4	196000	0.0000	25	465	6/10/2003	\$1,200,000	
4	5203-02	Grosse Ile Twp	Wayne Co	SSO: Basin, Swrs, WWTP Upgrd - Seg 2	0	0	50	0	0	50	300	10894	85	0.063	37800	0.0000	25	460	11/26/2002	\$21,570,000	
4	5203-99	Grosse Ile Twp	Wayne Co	SSO: Future Segments	0	0	50	0	0	50	300	10894	85	0.063	37800	0.0000	25	460	Future	\$11,265,000	
5	5204-03	Detroit	Wayne Co	WWTP Upgrds - Seg 3 - PS Imp	0	0	0	0	0	0	300	3016461	100	707	168000	0.0042	55	455	9/4/2003	\$30,660,000	
5	5204-04	Detroit	Wayne Co	WWTP Upgrds-Seg 4- Aeration Deck Imp	0	0	0	0	0	0	300	3016461	100	707	168000	0.0042	55	455	9/4/2003	\$54,350,000	
5	5204-99	Detroit	Wayne Co	WWTP Upgrds - Future	0	0	0	0	0	0	300	3016461	100	707	168000	0.0042	55	455	Future	\$32,210,000	
6	5190-02	St Joseph	Berrien Co	CSO: Swr Sep, Rehab - Seg 2	0	1	0	27	0	28	300	9214	80	0.5	890	0.0006	40	448	9/4/2003	\$1,495,000	
PROJECTS WITHOUT PRIOR YEAR SEGMENTS																					
7	5175-05	Detroit	Wayne Co	CSO:Connor Cr RTB (3) - Seg 5	100	100	0	28	0	228	300	3100000	100	24.17	54	0.4476	85	713	11/26/2002	\$44,740,000	
7	5175-99	Detroit	Wayne Co	CSO: Future Segments	100	100	0	28	0	228	300	3100000	100	24.17	54	0.4476	85	713	Future	\$723,415,000	
8	5005-15	Lansing	Ingham Co	CSO: Swr Sep, WWTP Imps - Seg 15	7	100	0	37	0	144	300	62301	95	1.268	48	0.0264	70	609	3/11/2003	\$12,310,000	
8	5005-99	Lansing	Ingham Co	CSO: Swr Sep - Future	7	100	0	37	0	144	300	62301	95	1.268	48	0.0264	70	609	Future	\$124,000,000	
9	5006-08	Port Huron	St Clair Co	CSO: Swr Sep, Project Area #20, Tunnel Area	0	30	0	27	0	57	300	21692	90	2.67	30	0.0890	85	532	6/10/2003	\$2,000,000	
9	5006-99	Port Huron	St Clair Co	CSO: Swr Sep - Future Segments	0	30	0	27	0	57	300	21692	90	2.67	30	0.0890	85	532	Future	\$20,150,000	
10	5206-01	South Lyon	Oakland Co	WWTP Upgrd/Expnd	0	0	0	0	0	0	300	10036	85	1.17	0	>.6000	100	485	3/11/2003	\$17,400,000	
11	5210-01	Manton	Wexford Co	Lagoon/PS Imp.	0	0	0	0	75	75	300	1350	55	0.75	999999	0.0000	25	455	3/11/2003	\$2,225,000	
12	5127-05	Trenton	Wayne Co	SSO: Pump Station Improvments - Seg 5	0	1	0	27	0	28	300	20586	85	0.1	200	0.0005	40	453	9/4/2003	\$4,300,000	
13	5209-01	Bangor	Van Buren Co	Lagoon upgrd/exp; PS repl; I/I removal	0	0	0	0	0	0	300	2100	60	0.346	1.9	0.1821	85	445	3/11/2003	\$5,470,000	
14	5174-01	Lenawee Co	Palmyra Twp	CS & WWTP	0	0	0	0	75	75	300	587	40	0.051	999999	0.0000	25	440	3/11/2003	\$4,055,000	
15	5196-01	Three Rivers	St Joseph Co	WWTP Upgrd/Expnd (refinance)	0	0	0	0	0	0	300	9231	80	1.31	210	0.0062	55	435	Future	\$5,840,000	
16	5129-99	Sault Ste Marie	Chippewa Co	CSO: Sewer Sep - Future Phases	0	1	0	27	0	28	300	9323	80	0.043	78000	0.0000	25	433	Future	\$7,865,000	
17	5208-01	Marysville	St Clair Co	SSO: EQ Basin	0	0	0	27	0	27	300	9864	80	0.02668	165000	0.0000	25	432	9/4/2003	\$7,125,000	
18	5193-01	Mason Co	Scottville	Swr Sep/Rehab; Intcp to Ludington (refinance)	0	0	0	24	0	24	300	1287	50	1.04	390	0.0027	55	429	Future	\$5,665,000	
19	5213-01	Calhoun Co	Duck Lake	Lagoon xpan.; PS; FM	0	0	0	0	0	0	300	1700	55	0.33	999999	0.0000	25	380	9/4/2003	\$1,900,000	
20	5134-01	Warren	Macomb Co	WWTP Upgrds, Sand Filter Rehab	0	0	0	0	0	0	0	144864	95	23.56	1.4	>.6000	100	195	9/4/2003	\$3,890,000	
20	5134-99	Warren	Macomb Co	WWTP Upgrds - Future	0	0	0	0	0	0	0	144864	95	23.56	1.4	>.6000	100	195	Future	\$17,945,000	
21	5215-01	Lansing	Ingham Co	WWTP Improvements	0	0	0	0	0	0	0	124353	95	18	92	0.1957	85	180	3/11/2003	\$630,000	
22	5211-01	Lansing	Ingham Co	SSO Control	0	0	0	0	0	0	0	87110	95	5.038	240	0.0210	70	165	6/10/2003	\$7,280,000	
23	5212-01	South Huron Valley	Wayne Co	EQ Basin	0	17	0	0	0	17	0	65004	95	4.09	168000	0.0000	25	137	9/4/2003	\$16,710,000	
24	5179-01	Coopersville	Ottawa Co	PS Upgrds, FM, Repl Swr	0	0	0	0	0	0	0	3640	70	0.84	830	0.0010	40	110	9/4/2003	\$590,000	
25	5187-01	Marysville	St Clair Co	WWTP Upgrd/Rehab	0	0	0	0	0	0	0	9864	80	2.49	165000	0.0000	25	105	Future	\$5,240,000	
26	5168-01	Berrien Springs	Berrien Co	WWTP, CS	0	0	0	0	0	0	0	2543	65	0.29	1080	0.0003	40	105	3/11/2003	\$7,860,000	
27	5139-01	Billings Twp	Gladwin Co	CS, WWTP	0	0	0	0	0	0	0	3702	70	0.259	999999	0.0000	25	95	9/4/2003	\$15,900,000	
27	5139-02	Billings Twp	Gladwin Co	CS, WWTP (refinance)	0	0	0	0	0	0	0	3702	70	0.259	999999	0.0000	25	95	Future	\$3,400,000	
28	5188-01	Stockbridge	Ingham Co	WWTP Upgrd/Expnd	0	0	0	0	0	0	0	1225	50	0.153	999999	0.0000	25	75	6/10/2003	\$2,520,000	
36	Projects															Total Binding Commitment Dollars				\$1,488,360,000	